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BEFORE THE ARIZONA CORPORATION COMMISSION

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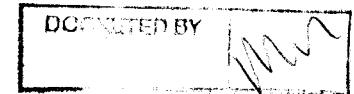
Arizona Corporation Commission

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IN THE MATTER OF THE NOTICE OF
PROPOSED RULEMAKING REGARDING
RESOURCE PLANNING.

DOCKET NO. RE-00000A-09-0249

**TUCSON ELECTRIC POWER
COMPANY'S AND UNS
ELECTRIC, INC.'S JOINT
COMMENTS**

Tucson Electric Power Company ("TEP") and UNS Electric, Inc. ("UNS Electric"), (collectively, the "Companies"), through undersigned counsel, hereby submit their joint comments on the draft Resource Planning and Procurement Rules circulated by Commission Staff on September 4, 2009 (the "Draft Rules"). The Companies also have proposed specific revisions to the Draft Rules, which are set forth in the attached redlined version of the Draft Rules.

The Companies have actively participated in the Arizona Corporation Commission's ("Commission") Integrated Resource Planning ("IRP") workshop process and are supportive of the work being done by Staff and the Commission to update and improve Arizona's Integrated Resource Planning rules. In general, the Companies agree with many of the proposed revisions set forth in the Draft Rules; however, the Companies wish to reiterate some comments and recommended revisions set forth in their previous comments in this docket. The Companies believe that a well designed resource planning process provides the framework for ensuring reliable, reasonable cost electric service while effectively managing risk and future uncertainty. Throughout this process, the Companies have focused on several key elements that should be included in the new resource planning rules, which are discussed below.

A. Open Planning Process.

The new resource planning rules should incorporate a planning process that is open to participation by Utilities, Commission Staff, customer interest groups, and other interested

1 stakeholders with a constructive interest in the company's long-term resource strategy. This
2 upfront approach on planning allows the Commission to be involved in the relevant discussions
3 which would help shape the final plans submitted by the Companies.

4 **B. "Least Cost" Planning Requirement.**

5 It is clear that the long-standing resource planning paradigm that focused solely on "least
6 cost" is obsolete. The new resource planning rules should consider resource planning approaches
7 that value the use of diverse portfolios designed to hedge against future uncertainties, such as
8 environmental regulations, and to reduce a variety of undesirable impacts. The Companies believe
9 the current Arizona Renewable Energy Standard Tariff in conjunction with the proposed resource
10 planning rules should provide the incentive for utilities to develop diverse resource portfolios
11 which rely on efficient, clean energy resources.

12 **C. Defined Evaluation Criteria.**

13 The IRP process combines key resource planning elements to allow utilities to meet the
14 forecasted load requirements in a cost effective manner, while meeting other regulatory and legal
15 requirements or goals such as reliability, increased renewable generation, increased energy
16 efficiency targets and emissions compliance. The IRP process is not the place to debate or
17 establish these legal or regulatory requirements, but rather it is the process to ensure that they are
18 being met in a cost effective manner, given the existing portfolio of generating resources and
19 future resource needs.

20 **D. Timely Review Process.**

21 The new resource planning rules should include a formal process that ensures the
22 submitted resource plan is reviewed and accepted in a timely manner. The Companies believe the
23 a resource plan should be reviewed within 120 days after it has been filed and the Commission
24 should issue a letter of sufficiency.

25 **E. Short-Term Action Plan Approval/ Plan Acknowledgement.**

26 The resource planning rules should include provisions that require the Commission to
27 acknowledge the submitted resource plan so the company is able to move forward and execute its

1 recommended resource plan. As part of the review process, TEP and UNS Electric believe that
2 within 120 days after the plan has been filed, at the Company's request, the Commission will hold
3 a hearing to address any required resource planning actions that are part of the short-term action
4 plan. This hearing would specifically address the short-term action items that would occur prior to
5 the acknowledgement of the filed resource plan. This acknowledgement of resource plan and the
6 approval of the short-term action plan is critical to attracting qualified third-party developers and
7 the required financial support necessary to execute a utility's future resource strategies.

8 **F. Specific Comments on Staff's Draft Rules.**

9 Since early 2007, both TEP and UNS Electric have been actively involved in the
10 workshops leading up to the current Draft Rules. While supportive of the draft requirements, the
11 Companies have attached a redline of Draft Rules setting forth proposed revisions that warrant
12 further consideration. The key revisions are discussed in detail below:

13 1. An additional clause should be added to R14-2-703.C.5 to address situations
14 involving the submission of information that may be considered confidential. The Companies
15 recommend adding the following language: "For any data requirement that requires the potential
16 disclosure of confidential business data, the Company will have the option to redact the
17 information with an explanation justifying the confidentiality."

18 2. As currently written, R14-2-703.D.8 may limit the range of resource options. The
19 Companies recommend revising that provision to read: "A plan that considers using a wide range
20 of resources and promotes fuel and technology diversity within its portfolio."

21 3. For the same reason as in 2 above, R14-2-703.D.9 should be revised to read: "A
22 plan that factors in the delivered cost of all the resources options. This includes costs associated
23 with environmental compliance, system integration, backup capacity, and transmission delivery."

24 4. The Companies believe that the 15-month lag between the time a resource plan is
25 filed and the time it is reviewed by the Commission is excessive. TEP and UNS Electric assume
26 that the new resource planning process would utilize public workshops to keep the Commission
27 up-to-date on the resource plan under development. It was envisioned that this up-front dialog

would reduce the time required to review the resource plan since the Commission would be involved in the plan development from the onset. To meet this concern, the Companies propose adding the following provision to R14-2-704.A: “Within 120 days of the submission of the resource plan filing by the utilities, the Commission shall schedule a hearing to review the utility resource plan, short-term action plan and issue a letter of sufficiency. At the Company’s request, the utility will have the option to seek Commission approval on any resource planning actions that are part of the short-term action plan that will occur prior to the approval of the filed resource plan;”

5. With respect to Commissioner Newman's proposed changes on externalities and life cycle analysis, the Companies believe that additional workshops and comments from all stakeholders are necessary to fully understand the scope of the proposed changes. TEP and UNS Electric do agree that Commissioner Newman's concerns should be addressed and will participate in workshops to discuss how to evaluate the externalities and life cycle costs and how to determine which values can be incorporated into the IRP process. The Companies believe that the Draft Rules allow for specific evaluation criteria (such as those identified by Commissioner Newman) to be addressed in the planning and stakeholder processes.

6. With respect to Commissioner Newman's request for fuel supply studies, the Companies suggest adding the following language to R14-2-703.D.15: "Analysis of future fuel supplies that are part of the preferred resource plan;"

7. The Companies believe a fifteen-year planning horizon should be used in the resource planning process to allow utilities the opportunity to analyze the long-term uncertainties surrounding environmental regulation, transmission planning and capital intensive, base load resources.

Conclusion

TEP and UNS Electric believe that the new resource planning rules should result in a resource planning process that encourages an open dialog between all stakeholders and mitigates risk through resource diversity while providing reliable electric service at a reasonable cost to

1 customers. The Companies further believe that timely review and approval of the short-term
2 action plans under these new rules is necessary to support a utility's ability to timely execute on
3 high quality resource options. Finally, the Companies believe the resource planning rules, in
4 conjunction with the proposed Energy Efficiency Standards and the current Arizona Renewable
5 Energy Standard Tariff, should provide the proper incentives for utilities to develop diverse
6 resource portfolios that include efficient, clean energy resources.

7 The Company appreciates the opportunity to participate in these important resource
8 planning issue discussions.

9 RESPECTFULLY SUBMITTED this 21st day of September 2009.

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